

**DECISION PAPER**

☐ Information   ☐ Briefing   ☐ Event   ☐ Meeting Request   ☒ Decision/Signature

**TO:** DENISE ROTH  
DEPUTY ADMINISTRATOR  
U.S. GENERAL SERVICES ADMINISTRATION

**FROM:** MICHAEL CASELLA  
CHIEF FINANCIAL OFFICER  
U.S. GENERAL SERVICES ADMINISTRATION

GREGORY GODBOUT  
EXECUTIVE DIRECTOR  
18F

**SUBJECT:** 18F PRICING

**RECOMMENDATION:** SCENARIO 3

**BACKGROUND:**

Between March and June of FY14, FAS Financial Services developed a break-even model for 18F. Rates were developed based on the following assumptions:

- PIF and Client Services would not be charged FAS Integrator Costs
- The Working Capital Fund expenses for PIF and Client Services was based on 18F management expense as a percentage of total FAS management expense, which excludes operating expenses. This was done in order to match the fee the program had previously communicated to customers of \$7,000/PIF. Client Services rates used the same methodology for consistency, though no external messaging was driving this methodology. Using this methodology, a \$15,000/PIF fee was agreed upon. This fee reflects an allocation of indirect costs that is significantly below that of other FAS programs, as a percentage of total direct expenses.

Recently, there have been discussions on 18F's GM&A cost estimates that resulted from the methodology described above, and consequently the fees charged to customers. OCFO and 18F worked to identify the functions associated with the line item detail of the Working Capital Fund (WCF) bill that are consumed or not consumed by 18F in greater detail than the bill currently provides.

The OCFO would like to note that whereas there are several WCF components that can be directly allocated to FAS generally (FAS IT Systems) or a FAS program in particular (FAS Financial Services, Atlanta Financial Services Center, which exclusively serves the Telecom program), most WCF costs are allocated to FAS based on FAS' relative share of GSA's total FTE. This amount is passed on to FAS, but without additional detail that would enable a program-by-program allocation. As a result, the simplified explanation (that has some exceptions) of how FAS allocates WCF costs is the relative share of each programs' Direct Operating Expenses (DOE) combined with the relative share of each programs' FTE to the FAS total applied to FAS' WCF bill.

The OCFO/18F team reviewed the Working Capital Fund bill to break down GM&A costs and capture the different components applicable to 18F. The team met with each of the major WCF components to understand what functions were being performed and to identify those that are directly or partially consumed by 18F. For the CIO line items that required more clarity, the CFO/18F team met with the GSA CIO who provided insight into the services and functions being consumed by 18F. For those OCIO items that had ambiguous usage, the GSA CIO provided an allocation methodology to estimate usage.

As a result of the team's assessment of the WCF bill after meeting with the respective components, there are three scenarios for consideration:

1. Full WCF allocation, excluding FAS Financial Service Center (FSC)
  - a. 18F pays full share of WCF bill like all other organizations
  - b. Excludes FAS Financial Services FSC Functions (Telecom and AAS support)
  - c. Likely higher than the actual 18F use of WCF Services
2. Exclude services not used by 18F using OCIO's assessment of its detail line items
  - a. 18F and OCFO agree to exclude those services that are not utilized by 18F
  - b. Second level OCIO line with ambiguous 18F usage allocated based on CIO's recommendations
  - c. Better estimate of 18F indirect costs than a full allocation method
3. Same assumptions and methodology as Scenario 2, but producing a single average rate that would apply to both Client Services and PIFs by grade level.

Below is a summary table of the rates:

Scenario	GM&A Cost to 18F	PIF Rate/hr	PIF Rate/yr	CS Rate/hr
Previous Model	\$481K	\$6	\$11K	\$117
Scenario 1	\$18.1M	\$191	\$397K	\$170
Scenario 2	\$12.3M	\$173	\$359K	\$148
Scenario 3	\$12.3M	\$157	\$327K	\$157

#### Hourly Rates to be Charged for Each Billable Employee by Grade

These rates were calculated based on the distribution of anticipated FY15 FTE across grades as well as the relative change in salary at each grade. Note that the rates below will be charged for each grade level, and the actual effective rate will depend on the actual mix of grade levels reimbursed for Client Services. As agreed upon, OCFO and 18F will review rates on a semi-annual basis to recalibrate rates based on any changes in utilization by grade and anticipated hires by grade. We assume that all PIFs will be at the GS-15 level.

Grade	FY15 FTE		Scenario 1 Rates		Scenario 2 Rates		Scenario 3 Rates
	PIF	CS	PIF	CS	PIF	CS	PIF/CS
7	-	-	\$ 65	\$ 67	\$ 59	\$ 59	\$ 59
9	-	-	\$ 80	\$ 82	\$ 72	\$ 72	\$ 72
11	-	3	\$ 96	\$ 100	\$ 87	\$ 87	\$ 87
12	-	3	\$ 116	\$ 120	\$ 105	\$ 104	\$ 104
13	-	32	\$ 137	\$ 142	\$ 124	\$ 124	\$ 124
14	-	21	\$ 162	\$ 168	\$ 147	\$ 146	\$ 146
15	63	46	\$ 191	\$ 198	\$ 173	\$ 172	\$ 172
Total FTE	63	105					
	Effective Rate		\$ 191	\$ 170	\$ 173	\$ 148	\$ 157

## 18F Pro-Forma Statement of Operations

	18F Sc1	18F Sc2	18F Sc3
Net Revenue	49,754,890	43,980,448	43,980,448
Total Cost of Goods and Services Sold	-	-	-
Gross Margin	49,754,890	43,980,448	43,980,448
Operating Expense	25,733,545	25,733,545	25,733,545
Mgt. Expense	3,813,426	3,813,426	3,813,426
Rent	1,856,692	1,856,692	1,856,692
Other Cost of Operations	88,446	88,446	88,446
Depreciation & Amortization	141,873	141,873	141,873
Executive Direction, Planning, & Support	-	-	-
General Management & Administration	18,120,906	12,346,465	12,346,465
Total Operating Expenses	49,754,890	43,980,448	43,980,448
Operating Results Before Provisions/Reserves	-	-	-

## 18F Pro-Forma Statement of Operations – WCF Detail

	18F Sc1	18F Sc2	18F Sc3
General Management & Administration	18,120,906	12,346,465	12,346,465
Administrative Services (OAS)	1,055,815	1,055,815	1,055,815
Chief Financial Officer (CFO)	2,226,355	2,226,355	2,226,355
Centralized CFO Support	1,573,290	1,573,290	1,573,290
FAS Financial Services (BF)	653,065	653,065	653,065
FAS Financial Service Centers (FSC's)	0	0	0
Chief Information Officer (CIO)	11,165,671	4,700,649	4,700,649
Centralized CIO Support	8,878,924	4,700,649	4,700,649
FAS IT Services (IQ Staffing)	2,030,123	0	0
FAS IT Services (IQ Admin Systems)	256,624	0	0
Office of Human Resource Management (OHRM)	2,081,614	2,120,836	2,120,836
General Counsel (OGC)	587,003	1,238,361	1,238,361
Governmentwide Policy (OGP)	139,680	139,680	139,680
Other GM&A	864,769	864,769	864,769

## Comparison of Indirect Costs as a Percent of Program Direct Operating Expenses

	GM&A/DOE		
	Sc1	Sc2	Sc3
PIF	61%	45%	42%
CS	61%	39%	42%
AAS	64%	64%	64%
GSS	72%	72%	72%
ITS	54%	54%	54%
TMVCS	65%	65%	65%

The slides discussed on 10.1.2014 and 10.10.2014 can be found at the following URL:  
[https://docs.google.com/a/gsa.gov/presentation/d/1GZSUOz-glze25zB\\_pzqMcwANEBogd74LcZVL4ZhoPec/edit#slide=id.g3e9749cb8\\_143](https://docs.google.com/a/gsa.gov/presentation/d/1GZSUOz-glze25zB_pzqMcwANEBogd74LcZVL4ZhoPec/edit#slide=id.g3e9749cb8_143)

## **ANALYSIS AND CONSIDERATIONS:**

In analyzing costs, those that were determined 18F does not consume were excluded from the rate calculation model's typical allocation of WCF expenses within FAS so as to comply with the Economy Act requirement of recovering indirect costs, while not over-charging customers. For those items that were excluded from the typical allocation, the rest of FAS will bear the financial burden that would have otherwise been unreasonably allocated to 18F.

It should be noted that the PIF agreements have changed from a reimbursable detailee model to firm-fixed-price agreement. Agreements for detailees do not recognize revenue reimbursing Personnel Compensation and Benefits; instead, reimbursement is treated as a negative expense which reduces operating expense and in turn reduces indirect costs allocated to 18F. Firm-fixed-price agreements do not tie employees to the IAA and all reimbursement is treated as revenue. Consequently, the full PC&B cost is reflected in operating expenses resulting in a higher indirect cost allocation.

This change in allocation methodology will be reflected in the reporting of financial results starting in Q2 FY2015 so as to allow sufficient time to modify the allocation process, calculate all impacts to other FAS reporting elements, load the resulting tables into Pegasys, and test that they have been loaded properly while also allowing a buffer for any re-work that may be required. Until this new methodology is implemented in financial reporting, assuming all other financial plans are executed as planned, results for 18F will present positive operating results.

## **RECOMMENDATION:**

Given that the Economy Act's requires the recovery of direct and indirect costs while not generating excess revenue, the OCFO and 18F recommend adopting the methodology where greater analysis has been performed to identify those functions provided by the Working Capital Fund that 18F consumes while excluding those costs for functions that are not consumed by 18F as reflected in Scenario 3. Because the difference at each GS level between PIF and 18F CS is negligible, we recommend utilizing the same labor rate for both components for ease of operations and communication/expectations of clients.

OCFO and 18F recommend that these rates take effect immediately for any new agreements with customers. Any agreements already in place will not be subject to pricing revisions.

## **COORDINATION:**

- Office of the Administrator
- Federal Acquisition Services
  - Office of the Commissioner
  - 18F
- Office of the Chief Financial Officer
  - Chief Financial Officer, GSA
  - FAS Financial Services
- Office of General Counsel
- Office of the Chief Information Officer
- Office of Human Resources Management

**Decision:**

**Effective Hourly Rate by Scenario and 18F Program**

	PIF Hourly Rate	Client Services Hourly Rate	Approved Scenario
Scenario 1	\$191	\$170	
Scenario 2	\$173	\$148	
Scenario 3	\$157	\$157	

☒ Approve    ☐ Approve as amended    ☐ Disapprove    ☐ Discuss

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Signature

Date

Jan 8, 2015

